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**INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES**

Reference: AUD-7-1:31 (1023 /02)

3 July 2002

To: Mr. Benon Sevan, Executive Director
Office of the Iraq Programme

From: *for* Esther Stern, Director
Internal Audit Division, OIOS *Esther Stern*

Subject: **OIOS Audit No. AF2001/30/6: Audit of the management of the oil inspection services Contract**

1. A draft audit report on the above-mentioned subject was issued on 7 December 2001 requesting a response by 15 January 2002. The deadline for the response was eventually extended, for approximately 2.5 months, until 31 March 2002. Subsequent to the issue of the final version of the report on 15 April 2002, a reply to the recommendations was received from OIP, addressed to the OIOS USG, under a covering memorandum dated 17 April 2002. In order to address the response to the recommendations, OIOS has decided to issue a revised version of the final audit report incorporating OIP's comments.

2. Based on your response to the report, we are pleased to inform you that we have closed recommendations 001, 005, 006, 012, 015, and 021 in the IAD recommendation database. In order for us to close out the remaining recommendations - recommendations 002 to 004, 007 to 009 to 011, 013, 014, and 016 to 020 - we request that you provide us with additional information as indicated in the text of the report and a time schedule for implementing each of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring of implementation status.

3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

4. Thank you for the assistance and cooperation provided to the auditors on this assignment.

Copy to: Mr. J. Connor
Mr. J.P. Halbwachs
UN Board of Auditors
Mr. D. Knutsen
Mr. J. Prasad



United Nations
OFFICE OF INTERNAL OVERSIGHT SERVICES
Internal Audit Division

Audit Report

- **Audit subject:** Management of the Oil Inspection Services Contract
 - **Audit No. and location:** AF2001/30/6
 - **Report date:** 3 July 2002
 - **Audit team:** Dagfinn Knutsen, Auditor-in-charge
Jayanti Prasad, Resident Auditor
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Audit of the management of the oil inspection services Contract
(AF2001/30/6)
Executive Summary

From March through August 2001, OIOS conducted an audit of the management of the oil inspection services Contract between the United Nations and Saybolt Eastern Hemisphere B.V. (the Contractor). The focus of the audit was on administrative and management aspects of the Contract. The audit found that there are substantial costs that should be recovered from the Contractor as a result of overcharged and overpaid amounts and unjustified and unsubstantiated expenditures. Moreover, OIP should in future contracts consider altering certain contractual arrangements in order to ensure more cost effectiveness.

Results in brief:

- ❑ A review of 19 monthly Contractor's invoices found inadequate procedures to monitor invoice payment and ambiguities in supporting documentation leading to estimated overpayments of approximately \$186,000.
- ❑ Excessive charges have been made for company and personal communication costs. Substantial savings could have been achieved if communication costs were paid on an actual basis.
- ❑ Charges by the Contractor for accommodation and local transportation were excessive and were not based on the fact that the Government of Iraq often provided these services free of charge. Had this been taken into account, estimated savings of \$471,000 could have been achieved.
- ❑ Despite transportation costs being provided for in the Contract, amendments were made for the purchase of vehicles.
- ❑ The Contractor had made excessive charges for certain additional services such as providing equipment for spare parts inspectors, engaging four additional experts, transportation charges for consultants, etc. In addition, invoices were paid without adequate supporting documentation and justification.
- ❑ \$235,350 was paid to the Contractor for providing a "Comprehensive survey of the oil industry in Iraq". An exception to bidding for this service was resorted to in awarding the contract (PD/C0003/00). However, no measures were taken to assess the reasonableness of the Contractor's proposal, and payment was made without any supporting documentation being submitted.
- ❑ Audit visits as provided for in the Contract had not been made by the Contractor, resulting in overpayments of \$270,000.
- ❑ The Contractor had not been charged for the services provided by United Nations Office of the Humanitarian Coordinator in Iraq (UNOHCI).

- ❑ No procedures had been established to monitor the services of the Contractor, in the absence of which it is not clear as to how OIP had assessed the quality of services provided.
- ❑ Agreeing to pay for equipment costs, built into the per-man day cost structure, had resulted in the UN paying approximately \$1.2 million for the Contractor's equipment. This cost appeared excessive compared to the value of actual equipment in use by the Contractor.
- ❑ OIP had not been scrutinizing the curriculum vitae of the Contractor's staff effectively, even though they are required to do so under the Contract.

Major recommendations:

OIP should:

- ❑ Strengthen the procedures for approving the Contractor's invoices by requiring complete supporting documentation and performing detailed verification of them.
- ❑ Establish a contract management unit in Iraq whose functions should include reviewing invoice supporting documentation, maintaining attendance records for contractors, assessing requests for additional equipment and services by the Contractor, and providing input for evaluation of the services provided.
- ❑ Recover approximately \$186,000 due to overcharging for excess numbers of staff at designated locations and mistakes apparent from records. OIP should review all Contractor invoices to determine the correct recoverable amount.
- ❑ Consider amending the Contract so that communication, local transportation and accommodation cost are segregated from the per-man day cost structure and are reimbursed based on verifiable supporting documentation.
- ❑ Consider amending the Contract to segregate the Contractor's equipment costs from the per-man day cost structure. There should be a one-time reimbursement of the actual cost with some provision for maintenance.
- ❑ Check contracts for additional services for reasonableness, obtain additional quotation and full justification and documentation to support payments.
- ❑ Bill the Contractor for the services provided by the UN to the Contractor at the standard cost for third parties.
- ❑ Develop a clear mechanism to monitor and evaluate the performance of the Contractor, both at the field and Headquarters level.
- ❑ Develop appropriate procedures to approve Contractor's personnel more effectively.

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I. INTRODUCTION

1. From March through August 2001, OIOS conducted an audit of the management of oil inspection services Contract between the United Nations and Saybolt Eastern Hemisphere B.V. (the Contractor). The audit was conducted in accordance with the general and specific standards for the professional practice of internal auditing in United Nations Organizations.
2. One of the functions of the Office of Iraq Programme (OIP), under Security Council Resolution (SCR) 986 (1995) is to oversee the export of oil and oil products from Iraq through approved export points. In addition, OIP is responsible for monitoring the end use of oil equipment and spare parts that are being procured by Iraq to improve its decaying oil industry infrastructure.
3. The initial Contract with Saybolt Eastern Hemisphere (Contract no. PD/CON/127/0065/96), was awarded in August 1996 as a result of a request by the Department of Political Affairs (DPA) for the provision of independent experts in international oil trade in accordance with SCR 661 (1990). Since the initial Contract, twelve amendments have been made, including four amendments for additional labour and travel costs. Recently, a new bidding exercise was conducted by the Procurement Division (PD) which resulted in the Contractor again being awarded the Contract (Contract no. PD/CO114/00).
4. The new Contract extends from 29 May 2000 until 28 May 2001 with an annual contract value not to exceed \$5,316,150 and an aggregate value of \$21,264,600. Moreover, the new Contract provides for an option to renew it for three successive one-year periods, under the same terms and conditions, including price. In addition to this Contract, OIP has also entered into other contracts with Saybolt to carry out studies separate from this Contract. The Contractor currently employs 14 inspectors to oversee oil exports from Zakho, in Northern Iraq, and Umm Qasr, on the Persian Gulf, and six inspectors are employed to monitor the end-use of oil equipment and spare parts imported by Iraq.
5. A request was sent to OIP to arrange for an exit conference in order to discuss the findings and recommendations resulting from the audit. However, OIP management did not respond to our request. The draft audit report was then sent to OIP on 7 December 2001 with a deadline of 15 January 2002 to respond to the audit recommendations. A final audit report was therefore issued on 15 April 2002. The current report has been amended to take into accounts comments subsequently received from OIP. The comments are indicated by the use of italics.

II. AUDIT OBJECTIVES

6. The major objectives of the audit were to:
 - (i) Assess OIP's management of the Contract, both in Iraq and at Headquarters, with respect to the obligations of the Contractor and OIP under the terms of the Contract, and procedures to verify and evaluate the Contractor's performance, receipt of services, and to review and pay invoices;

- (ii) Determine if the Contractor provides the required services in an economical, efficient and effective manner; and
- (iii) Review the management of other services being provided by the Contractor.

III. AUDIT SCOPE

7. OIOS conducted a previous audit (A/55/746) on the procurement aspects of this Contract. The current audit therefore focused on contract management issues. The audit consisted of a review of the Contract, invoices, and OIP's procedures to evaluate the Contractor's performance. In addition, physical inspections of the Contractor's operations were carried out in Iraq and Turkey. We interviewed OIP officials in New York and Iraq. In addition, with OIP's agreement and cooperation, we directly contacted the Contractor to provide us with explanations and certain documentation concerning their working arrangements.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments

8. The Contract and amendments required the Contractor to provide a total of 14 Oil Inspectors with a breakdown of six at Mina-al-Bakr, three at Zakho, and five at Ceyhan in Turkey. In addition, amendment number 8 of the Contract provided for six spare parts inspectors (two each at three different locations). The number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UN authorized payment to the Contractor. Hence, an accurate attendance record is essential to support the monthly invoices submitted by the Contractor. Our review of procedures found however, that they were lacking basic financial checks and balances, resulting in a number of incorrect payments.

9. A review of 19 monthly invoices and supporting documents found the following deficiencies:

- (i) The attendance record was ambiguous since in many cases it reflected the attendance "from arrival to departure Amman", whereas the payment to the Contractor should only be made for manning the locations in Iraq and Turkey. This could have resulted in payment for staff not at the work locations.
- (ii) The attendance sheet did not relate to the month written on it. For example, if the month is written as "June" that has 30 days, the attendance details are for 31 days. This irregularity, found in 18 of the 19 invoices reviewed, was never questioned by OIP.
- (iii) In the initial Contract, payments were to be made in lump sums; 30 per cent three months after start of Contract, 30 per cent six months after start, and 40 per cent upon

satisfactory completion of the Contract. The relevant invoices had no supporting documentation such as attendance sheets, on which to base the payment. Hence, there was a lack of any internal control.

- (iv) While the numbers of the Contractor staff present at a location are the vital parameter for payments, our review of the monthly invoices revealed that the Contractor had often maintained staff at each location both lower than, and at times, in excess of OIP requirements. This may have been due to the Contractor's rotation/leave policy for staff.

Recommendations 1, 2 and 3:

OIP management should:

- (i) Request the Contractor to modify the supporting invoice documents (attendance sheets), to clearly indicate the exact location of their staff which is currently indicated as "from arrival to departure Amman", which would enable OIP to verify the invoice (AF01/30/6/001);
- (ii) Review the arrangement whereby the Executive Director certifies invoices, and institute specific procedures for checking and approving invoices (AF01/30/6/002); and
- (iii) Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying the Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AF01/30/6/003).

10. *OIP agreed with recommendation 001, indicating that as of December 2000 the attendance record has shown "personnel attendance on location, from arrival to departure."* The recommendation has been closed. OIP did not provide a comment on recommendation 002 hence the recommendation remains open.

11. *Recommendation 003 was not agreed to and OIP stated that the contract was managed by OIP rather than UNOHCI so as not to unduly compromise UNOHCI's mandate. OIP also stated "that to the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. OIP also stated, "we have the expertise within OIP at the Headquarters, including the Oil Overseers and the group of oil spare parts experts with whom Saybolt has to work very closely, almost on a day-to-day basis."* OIOS would like to clarify that it did not intend for UNOHCI to undertake the contract management function, but rather that OIP be in charge of this function. Furthermore, the Oil Overseers informed us that they have no active part in the management of the contract and only use the information provided by the Contractor. Nonetheless, we are pleased to note that appropriate procedures have been established by OIP. In order to close this recommendation we request that

OIP provide us with a copy of the procedures. We also request that OIP reconsider establishing a formal contract management unit in the field.

Overpayment of monthly invoices needs to be recovered

12. A review of invoices found that inadequate scrutiny had led to irregularities resulting in overpayments of approximately \$370,000, which should be recovered from the Contractor (as detailed in the Annex) on account of overcharging, and short and excess stationing of staff. The following discrepancies were found:

- (i) On a few occasions, the Contractor had overcharged OIP since the attendance record showed lower man-days than those charged;
- (ii) It was observed that the Contractor had often maintained lower strengths than that required by the Contract. However, OIP did not deduct any amounts for such non-performance; and
- (iii) The Contractor had charged for additional staff in excess of contractual requirements, which had been paid by OIP.

In our opinion, the poor attendance recording practices by the Contractor resulting in overcharging indicates a lack of professionalism and should be immediately rectified as recommended above.

Recommendations 4 and 5:

OIP management should:

- (i) Recover the overpayment of \$186,000, as indicated in Annex from the Contractor in subsequent billings (AF01/30/6/004); and
- (ii) Review all other monthly invoices to determine if any further amounts need to be recovered from the Contractor on account of over-billing and short/excess maintenance of staff. This review should also cover those invoices without supporting attendance sheet (AF01/30/6/005).

13. *OIP disagreed with recommendation 004, and stated that the auditors did not understand the billing mechanism which was based on staff on site rather than contracted staff levels and that the invoice of a month covered the period from 29th of the previous month to 28th of the month of the invoice. It further stated that accordingly there was no overpayment involved except for the month of June 1999 (overpayment of 17 man-days) which would be deducted from a future payment. OIOS was aware that the contractor had charged for the staff actually present at the sites instead of the numbers required as per the contract. OIOS had recommended recovery of the amounts which had been paid by OIP for (i) overcharges for additional staff in excess of contractual requirements and (ii) on account of mistakes apparent from records. Concerning the failure of the Contractor to maintain the staffing levels agreed to in the contract, OIOS is of the opinion that there should be a penalty*

clause in the contract for such non-performance. The Annex has been amended to reflect our revised calculations. Furthermore, OIOS wishes to note that the indication of dates on a monthly invoice from 29th of the previous month to 28th of invoiced month, as stated by OIP, is not relevant to the calculation of overpayments, which were done by comparing the strength actually present to that required, on a day-to-day basis in accordance with the Contract provisions. Thus, we request OIP to re-consider this recommendation and, accordingly, the recommendation remains open.

14. *Paragraph 16 of OIP's reply states that the contract, "...provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. In that regard, it could be argued that once the requirement of satisfactory performance is met, the 'deficiency' in the attendance record becomes a non-issue."* This appears to imply that the contract's requirement for inspectors is flexible. If this were the case, then it would be appropriate to amend the contract to state the actual requirements and not to pay for additional unneeded inspectors.

15. *OIP has indicated in its response to recommendation 005, that a review of invoices had only revealed two minor discrepancies.* The recommendation has therefore been closed.

Communication charges by the Contractor have been excessive

16. A review of the tariff structure (appendix III of the proposal of June 1996) proposed by the Contractor, clearly indicated that all expenses such as labour, compensation, hotel, boarding and lodging, travel expenses, local transport, communication, insurance, risk premium, insurance, sample material transport and equipment were taken into account in arriving at the contract price. Included in the proposal were communication expenses of \$603,000, which is about 21 per cent of the total contract amount. For the initial six months of the Contract this amounted to approximately \$380,000.

17. Despite this huge expenditure, the Contract did not provide for any requirement to justify the expenses incurred. The communication expenses were essentially due to the use of a satellite communication system (Satcoms). The UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones. Hence, an opportunity to effect substantial savings had been forgone. With regard to the spare parts inspectors, the UN agreed to communication expenses of \$288 per day for each of three locations. Later on the communication expenses of \$288 was merged with the tariff for inspectors at \$699 per man-day.

18. While PD and OIP attempted to require presentation of actual bills in authorizing payment for telecommunications, the Contractor had not agreed to this stating in an e-mail dated 02/06/98 that "From the beginning we have been asked to quote a tariff structure which was all in. Your suggestion to extract the communication cost from our per man per day fee is in opposition to this philosophy, also it is not technically possible. Although our quotations clearly contain estimates, we have based our costs on empirical information from the previous phases. As our communication costs in Rotterdam are not separable in anyway, this can not be substantiated by invoices". In our view, there

is a high probability that the UN may be paying more for the communication expenses, than the Contractor is actually spending.

Recommendations 6 and 7:

OIP management should:

- (i) In future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AF01/30/6/006); and
- (ii) Investigate the use of alternative communication options including the use of UNOHCI's telecommunications network with appropriate reduction in the Contract price for communication charges (AF01/30/6/007).

19. *OIP took note of recommendation 006, and stated, "on-line costs were renegotiated in the current contract, PD/COI 14/00, resulting in substantial savings on communications costs." It also stated that this recommendation would be taken into account in the negotiation of future contract proposals. OIP also noted that the Procurement Division questioned the practice of including communication and equipment costs in the man-day-rate structure, and indicated they would be more "comfortable" with one time "non-recurring" costs. However, the contractor opposed this approach stating, "From the beginning we have been asked to quote a tariff structure which was all in." Based on OIP's response, we have closed this recommendation.*

20. *OIP disagreed with recommendation 007 and stated in its reply that the auditors had not adequately taken into account the location of the inspectors, and the logistics and political difficulties for UNOHCI to expand its telecommunication system to these areas. However, OIOS wishes to note that it is not aware of any attempts by OIP to determine the feasibility of adding the contractors to the UNOHCI network in Iraq. In our view, the feasibility of doing this should have been looked into. This recommendation remains open pending OIP's review of the feasibility of adding the Contractors to the UNOHCI network.*

OIP needs to recover personal phone calls made by the Contractor's staff

21. We found that the Contractor's internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communications cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP.

22. Based on a cost of \$3 per minute, the estimated free telephone service being enjoyed by the Contractor's staff (excluding Ceyhan cost) using Satcom in Iraq would be on the order of \$2,025 per month or a total of \$12,150 per six-month phase. We are of the opinion that this benefit should not have been charged to OIP.

Recommendation 8:

OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AF01/30/6/008).

23. *OIP disagreed with recommendation 008 and stated in their response that there was no evidence that personal telephone calls are charged to OIP. It also believed it would be contrary to the terms of the contract to demand such reimbursement.* OIOS is of the opinion that OIP should obtain a monthly statement from the Contractor indicating telephone usage to ensure that only official calls are charged to the UN. In addition, future contracts should not tie phone charges to the man-day-rate but rather should be charged separately. In this regard, we found that PD had requested itemized billing of telephone calls from the Contractor, but was informed that this was not technically feasible. However, OIOS notes that since the Contractor is able to separate personal phone calls for its staff, presumably it can also do this for charges to OIP. In order to close this recommendation, we request for OIP to ascertain the actual personal calls made by the Contractor staff and to recover the amount of these charges.

Accommodation and local transportation charges included in man-day billing rate have been excessive

24. Based on the Contractor's proposal of June 1996 and subsequent proposals, expenses for accommodation and local transport were included in the per-man-day fee structure at the rates of 2.85 per cent (\$83,700 out of a total of \$2,940,100) and 5.32 per cent (\$156,400 out of a total of \$2,940,100), respectively. However, we found that at Zakho and Mina-al-bakr, the Government of Iraq oil company had provided accommodation for the Contractor's staff. Despite specific queries to the Contractor whether they are paying any cost towards accommodation, no response was received. In addition at Zakho, the oil company had provided the Contractor with two cars for local transportation.

25. Based on the Contract proposal, we estimated that cost per-person-per day is around \$20 for accommodation and \$37 for transportation. This has resulted in an overpayment of approximately \$471,000 (for nine oil inspectors at Mina-al-Bakr (6) and Zakho (3) in the case of accommodation charges and three oil inspectors at Zakho in the case of local transportation charges) for the nine completed phases.

Recommendations 9 and 10:

- (i) OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AF01/30/6/009); and
- (ii) Future contracts with the current or other contractors should take into account free accommodation and transportation provided so that the UN obtains best value for money (AF01/30/6/010).

26. *Regarding recommendation 009, OIP stated "...in Iraq, it is a well-know fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements by the contractors, ..." OIP also stated, "the contract is all-inclusive, therefore...no reimbursement is due."* From this response it is not clear whether the contractor has in fact paid the GOI for accommodation expenses and the transportation provided for its staff. In order to close this recommendation, we would appreciate being informed of the arrangements made and the amounts actually paid to the GOI by the Contractor.

27. *OIP appears to have agreed with recommendation 010, stating in paragraph 28 of its response "...the points raised in the Report regarding the cost structure, could be utilized in the negotiations for the next contract." In order to close this recommendation we request OIP to confirm that it will amend the cost structure in future contracts.*

Transport costs provided for in the Contract have been charged

28. The initial Contract, as well as the new one, specified that the price included all costs such as transportation, equipment, etc. We found that, notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs.

Recommendation 11:

OIP management should ensure that future contracts with this Contractor or other contractors be based on actual equipment cost and not incorporated in the man-day rate (AF01/30/6/011).

29. *OIP appears to have agreed with recommendation 011, stating in paragraph 28 of its response "...the points raised in the Report regarding the cost structure could be utilized in the*

negotiations for the next contract." In order to close this recommendation we request OIP to confirm that it will amend the cost structure in future contracts.

30. It was also found that the Contractor proposed and the UN approved (Amendment number 11 to the Contract) for the purchase of three vehicles for the spare parts inspectors at a cost of \$19,500, \$24,500 and \$24,500 respectively. All these vehicles were to be Toyota Land Cruisers Prado STD with the only difference that, while the cheaper one was white in colour, the other two at \$5,000 extra cost were green and beige. We are of the opinion that the UN should have not allowed and paid for different color vehicles which led to unjustifiable expenditure of \$10,000.

Recommendation 12:

OIP management should ensure that specification for vehicles are in accordance with the UN standards and avoid unnecessary specifications involving additional costs (AF01/30/6/012).

31. *OIP stated in its reply to recommendation 012, that because of the urgency of the situation, it was decided to purchase vehicles with different costs and colours that were immediately available. Based on this explanation we are closing this recommendation. However, in the future we urge OIP to standardize the vehicle specifications in accordance with UN standards in order to minimize costs.*

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

32. As noted above, the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcoms, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic checks on these assets as required by UN financial rules.

Recommendation 13:

OIP management should ensure that UNOHCI takes stock of the equipment purchased by the Contractor and paid for by OIP, record them in the inventory system, and routinely perform physical verification (AF01/30/6/013).

33. *OIP disagreed with the recommendation stating, "The contract is all-inclusive... In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory." OIOS points out that the equipment referred to in this report was purchased separately by the contractor outside of the contract, under separate amendments. Hence, the equipment is UN property and should be fully accounted for and recorded in UN property records. In order to close this recommendation, we request that evidence be provided showing that this equipment has been recorded in UNOHCI's asset register.*

Charges for additional services provided by the Contractor have been excessive and inadequately monitored

34. From time to time OIP requested the Contractor to provide proposals for additional services. The cost proposals submitted by the Contractor had been accepted without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc. These are basic procedures when paying for goods and services and should have been performed by OIP as a matter of routine before payment was made.

35. For example, for the purchase of communication equipment for spare parts inspectors valued at \$17,800, no effort was made by OIP or even through UNOHCI to verify that the new equipment had actually arrived or that the equipment was in conformity with authorized standards before payment was released.

36. In another case, \$67,600 was agreed to by OIP for services of four experts for a 10-day period (Amendment number 9, June 1999) without any verification of the reasonableness of the charges. A review of invoices indicated excessively high charges by the Contractor and acceptance by the UN without any questioning. The fees for these experts were \$2,000, \$1,500, \$1,500 and \$900 per day. These were much higher even by the Contractor's standards for senior inspectors/oil monitors, which the Contractor charged a maximum \$699 per day including all costs. Furthermore, their trips from Amman-Baghdad-Amman were charged for and paid at the rate of \$750 round trip, instead of the standard cost of \$150 each way. It should be noted that whereas the Contractor charged \$7,200 for the airfares for these four experts both for inward and outward flights to Amman, \$3,000 was charged just for the Baghdad-Amman-Baghdad road journey.

37. A separate Contract (PD/C0003/00 dated 13 January 2000, in the amount of \$236,400) was entered into with the Contractor to provide a report on the state of the Iraqi oil industry. While an exception to bidding was approved by the Department of Management, there was no indication that OIP had checked the reasonableness of the Contractor's proposal, which was accepted exactly as proposed. Considering the high value of the Contract it would have been expected that some of the charges should at least have been checked for reasonableness and quotations obtained from other consultants to provide this service. This could have been done without going into a full bidding exercise and within the time constraint required to report to the Security Council.

38. Furthermore, the invoice amounting to \$235,350 (Invoice 987/00 dated 30 March 2000) was subsequently paid without any receipts for any of the expenses claimed by the Contractor, and without any evidence of review of the propriety or reasonableness of the charges. While the per day fee for the Contractor staff on this mission, ranged between \$900 to \$2,000, no supporting document was provided for the airfares (\$21,500), boarding and lodging (\$22,500), miscellaneous (\$5,000) and video presentation (\$5,350). In our view, these instances indicate the lack of adequate control procedures.

Recommendations 14, 15 and 16:

OIP management should:

- (i) Take immediate steps to ensure that all payments have appropriate supporting documentation before payments are made, and that charges are checked for reasonableness (AF01/30/6/014);
- (ii) Obtain clarification from the Contractor for the excessive charge of \$3,000 for the Amman-Baghdad trip and recover the overpayment of \$2,400 from future invoices (AF01/30/6/015); and
- (iii) Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AF01/30/6/016).

39. OIP did not provide a response to recommendation 014 on whether they would ensure that adequate checks are made for invoices prior to payment. In order to close the recommendation we request a response indicating what steps have been taken to implement it.

40. *OIP agreed with recommendation 015, and indicated that it would arrange to deduct the overpayment.* The recommendation has therefore been closed, however we request OIP to provide us with documentation indicating recovery of these costs.

41. *OIP took note of recommendation 016, stating that it maintains comparative information to determine the reasonableness of proposals. It further stated that it was therefore able to "discuss quickly with experts whether technical and financial proposals were reasonable." OIP also stated, "...that the contractor's proposals were fully considered by the Oil Overseers."* OIOS points out, however, that during the audit, no documentation was available to indicate that a reasonableness check had been done for this contract. Furthermore, during interviews conducted at UNHQ, the Oil Overseers stated that they were not responsible for any issues concerning the contractual arrangements with any contractor. In order to close this recommendation we would therefore appreciate being provided with the analysis done to determine the reasonableness of the proposal discussed in paragraph 37.

The Contractor had not conducted "audit visits" as provided for in the Contract

42. The Contractor's proposal dated June 1996, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks. Clearly, the cost of these visits would have been included in the overall price proposed by the Contractor. Accordingly, for the nine completed phases the Contractor should have undertaken 36 such visits (the cost charged by the Contractor for one trip

to Iraq was \$7,500). The Contractor was unable to provide any information indicating that such visits had taken place.

Recommendation 17:

OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AF01/30/6/017).

43. *OIP disagreed with recommendation 017, stating that it was the Contractor's Iraq team leaders role to audit operations and that this was more effective and efficient. It was also stated "the technical head of the Iraq team for Saybolt regularly undertakes missions to Iraq and cost of these visits is included in the overall cost of the contract." As such, OIP did not consider that any recovery is due.* OIOS points out that paragraph 3.2 of the Contractor's proposal, which is an integral part of the Contract, specifically calls for "audit" visits, which in our view are separate from the regular visits made by the technical head. However, since these visits had not taken place and in the absence of information provided by OIP on the number of visits undertaken by the technical head, we reiterate that the associated costs should be recovered. In order to close this recommendation we request that OIP provide us with documentation indicating that action has been taken to recover the costs paid for the required visits.

Services provided by UNOHCI have not been adequately charged to the Contractor

44. Under Article 7 and 8 of the new Contract (Article 8 and 9 of the old Contract), the UN was to provide only identity cards for the Contractors' personnel and allow access to UN transport only in cases of evacuation due to security developments, and medical evacuation. However, it was ascertained that UNOHCI provided many services including UN letters for visa support application for vehicle registration, issue of Iraq driving licenses, importation of equipment requiring customs clearance, repair and maintenance of vehicles (since June 2000), supply of walkie talkies, etc. In the initial phases UNOHCI was also providing transport facility to the Contractor. In fact UNOHCI has earmarked a senior official to deal with matters relating to the Contractor. It was also noticed that the UN Guards Contingent in Iraq (UNGCI) has provided Motorola radio sets to the Contractor.

45. While these services are necessary to enable the Contractor to function and should continue, in as much as these were not covered by a provision of the Contract, the cost of these services should be recovered from the Contractor. We found that only on seven occasions, between June 1999 and August 2001, had UNOHCI charged the Contractor a total sum of \$1,447.21 for various services.

Recommendation 18:

OIP management should quantify the financial implication of services provided to the Contractor by the UN and recover the amounts based on standard mission charge out rates (AF01/30/6/018).

46. OIP disagreed with recommendation 018 stating, "the auditors should review Section VIII of the MOU, concerning Privileges and Immunities." This Section of the MOU deals with the right of access of the UN, inspectors, etc. to Iraq and the obligations of the GOI and it is not clear how this relates to charging for services provided by the UN under the contract. The services to be provided by the UN are clearly spelled out in the contract as indicated in paragraph 43 above. Services, additional to these, should be charged for. In order to close this recommendation, we request that OIP determine cost of the services provided to the Contractor, and make every effort to recover those costs.

B. Monitoring Contractors performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

47. In Article 11 of the Contract, the UN reserved the right to inspect and test all services performed by the Contractor at all reasonable times and places during the period of the Contract. We found that while the OIP has in fact never exercised this right, OIP on all invoices and during presentation of the case for extension to the Headquarters' Committee on Contracts had stated that the services being provided by the Contractor were satisfactory and in full consonance with the Contract agreement. No formal evaluation has been made by OIP to determine the basis of this assessment.

48. While the Contract is mainly performed in Iraq (other than one location at Ceyhan, Turkey), OIP had not appointed anyone in Iraq to manage the Contract, in the absence of which there can be no assurance that the services were provided in consonance with the spirit and letter of the Contract. This is also indicated by the fact that many of the irregularities pointed out through this report would have had a better chance of being detected had contract management staff been located in Iraq.

D. Contract issues

Need to separate the cost of Contractor's equipment from the man-day fee structure

49. Based on the tariff structure proposed by the Contractor, equipment purchased to perform the Contract built into the man-day fee structure for oil inspectors amounted to 7.82 per cent of the Contract cost (\$230,000 out of a total of \$2,940,000).

50. This means that OIP pays about \$55 per day per inspector for equipment costs or approximately \$1.2 million for the nine phases. A review of the inventory list provided by the Contractor indicated that the actual cost of equipment was far less than the amount reimbursed through the tariff structure. However, the exact amount could not be determined, as the Contractor did not provide the cost of some of the equipment items. In OIOS' view, it was clearly not the intent of the Contract for the UN to pay costs of equipment far exceeding their actual value.

51. In our opinion, equipment should have been charged to OIP as a one-time expenditure with an additional provision for maintenance of the equipment. That option would have been much

cheaper, instead of paying for the equipment cost during all nine phases. We estimated that this has resulted in excessive payments of approximately \$1 million.

Recommendations 19 and 20:

OIP management should:

- (i) Provide for reimbursement of one-time equipment costs in future contracts in order to avoid the uneconomical arrangements of the current Contract (AF01/30/6/019); and
- (ii) Negotiate with the Contractor to recover approximately \$1 million paid for equipment in excess of its actual cost and to stop further payments for the equipment cost component in the current Contract (AF01/30/6/020).

52. OIP did not provide a response to recommendation 019. In our opinion, separating the cost of equipment from the man-day contract structure would be a more economical arrangement for the Organization. We therefore reiterate this recommendation.

53. *OIP disagreed with recommendation 020 stating, "While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into full consideration the ongoing maintenance, repair and replacement costs that are factored into the contract..." OIP also stated, "...had the auditors been in touch with Saybolt's headquarters, they could have received the information regarding the costs of 'some of the equipment'..."* OIP may not be aware that OIOS had contacted the Contractor's team leader in Iraq and requested the relevant information from him. This and other information requested was only partially provided. We remain concerned that under the current arrangement there is no relationship between the actual cost of equipment requirements purchased by the Contractor and the amount paid under the man-day-structure of the contract. We therefore request that OIP re-examine this issue and provide us with information on the steps taken to resolve the matter of excessive payments for equipment provided for under the contract.

Scrutiny of CVs of Contract personnel have been ineffective

54. The Contractor proposed (paragraph 1.1 of the Contractor's proposal of June 1996) that in view of importance and strict compliance with the relevant Security Council Resolutions (SCRs) and Memorandum of Understanding (MOU) with the Iraqi Government, each member of the team should be fully independent and consist only of people with proven experience, but without any existing connection to the oil industry. Accordingly, their recommendation was to form a team of pensioners, as it was not unusual in the oil industry to retire when about 45 years old. The Contractor further stated that it was capable of forming such a team of specialists with proven competence, integrity and neutrality within 48 hours. According to Article 1 of the Contract, the Contractor's proposal of June 1996 was an essential part of the Contract with the UN. A review of the CVs of pre-selected candidates (appendix II of the offer of the Contractor of June 1996) is summarized in the following

table:

Candidate no.	Age	Educational qualification	Experience (years) with the Contractor	Other professional experience (Years)
1	53	Several school certificates	23	
2	57	Several school certificates	25	
3	42	High School and nautical academy	11	
4	34	Nautical college	7	
5	58	High School	5	34
6	31	Several School certificates	6	
7	38	O level/A level	7	
8	47	HND Chemistry	9	
9	33	B.Sc. Electronics Engineering	5 months	5
10	37	High School	4	14
11	N/A	High School	1	6
12	44	Master Mariner	1	11
13	35	Qualified marine Ch Officer	2	7
14	33	High School (Chemist)	6	
15	37	Marine School	6	13
16	38	1st Class Marine Engineer	10 months	17
17	33	Intermediate (HSC)	8	
18	34	Intermediate (HSC)	14	
19	32	Intermediate (HSC)	8	
20	32	Intermediate (HSC)	9	
21	32	Intermediate (HSC)	9	8
22	34	B.Sc. Degree	8	3
23	32	Technical High School	8	2
24	35	Mechanical Engineer	7	2
25	32	Diploma B.Sc.	6	
26	38	Chemical Engineer	1	11
27	N/A	High School	2 months	14

55. A perusal of the above table indicated that, contrary to their assertion that they would form a team of pensioners, the proposed candidates had varying ages and there was a lack of consistency in

terms of experience. Another requirement of the Contract is that the UN should approve all candidates as submitted by the Contractor. We found however, that the UN has been approving proposed candidates as a matter of routine, as none of the candidates proposed by the Contractor has ever been rejected.

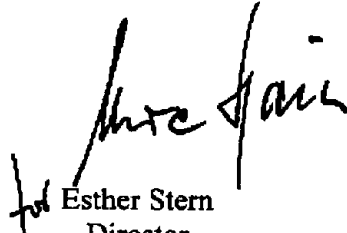
Recommendation 21:

OIP management should establish an appropriate approval process for candidates proposed by the Contractor in accordance with the Contract (AF01/30/6/021).

56. *With regard to recommendation 021, OIP indicated that a process is already in place, and that CVs of candidates are discussed with the Contractor on a regular basis and those not accepted are withdrawn. However, OIP agreed to consider establishing a formal procedure. On the basis of this response, we are closing this recommendation.*

V. ACKNOWLEDGEMENT

57. We wish to express our appreciation for the assistance and cooperation extended to the auditors by OIP and UNOHCI during the conduct of this audit.


for Esther Stern
Director
Internal Audit Division, OIOS

SAYBOLT OVERPAYMENTS

Invoice month	Amount to be recovered due to calculation errors (\$)	Details of mistakes	Amount of recovery due to maintaining excess staff (\$)	Details of excess staff	Total amount to be recovered [(2)+(4)] (\$)
1	2	3	4	5	6
June 01			11,488	1 Sr. Spare Pts. Insp. in excess from 9 th to 14 th , 24 th to 28 th and 31 st and two in excess on 29 th and 30 th	11,488
May 01	12,924	Charged 18 man days extra for Sr. Spare Pts. Insp., as charged for 202 man days instead of 184 per attendance sheet	10,052	14 man days total made up of 2 extra Sr. Spare Pts. Insp. from 13 th to 16, 1 extra on 1 st , 2 nd , 17 th , 18 th , 29 th and 30 th .	22,976
March 01			16,514	23 man days in excess made up of 1 Sr. Spare Pts. Inspector maintained in excess from 4 th to 9 th , 24 th to 28 th and 2 in excess from 18 th to 23 rd .	16,514
Feb. 01			14,341	1 Oil Insp. extra at Ceyhan on 20 th . 19 man days extra for Sr. Spare Pts. Insp. as 1 extra from 4 th to 14 th and 2 extra from 18 th to 21 st .	14,341
Jan. 01			5,744	8 man days extra for Sr. Spare Pts. Insp. as 2 maintained extra from 21 st to 24 th Jan.	5,744
Dec. 00	13,980	20 man days for oil Insp. overcharged as invoiced for 421 instead of 401 per attendance sheet	2,135	1 Sr Spare Pts. Insp. extra on 29 th and 30 th . 1 extra oil Insp. at Mina on 10 th .	16,115
Oct. 00	4,893	7 man days for oil Insp. charged extra as invoiced for 420 man days instead of 413 man days per attendance sheet.			4,893
Aug. 00	15,378	22 man days for oil Insp. Charged extra as invoiced for 434 man-days instead of 412 per attendance			15,378
May 00	655	1 man day for oil Insp. charged extra as invoiced for 420 instead of 419 per attendance sheet			655
Apr. 00	16,375	25 man days charged extra for oil inspector as invoiced for 434 instead of 409 per attendance sheet			16,375

Dec. 99			2,540	1 Spare Pt. Insp. excess on 10 th . 3 man days extra for oil Insp. As 1 Oil Insp. excess on 18, 19 th and 20 th at Ceyhan	2,540
Nov. 99	19,809	31 man days charged extra for Sr. Spare Pts. Inspector as invoiced for 93 man days instead of 62 per attendance sheet.	9,505	4 man days in excess for spare Part Insp as 1 maintained extra from 7 th to 10 th . 2 Oil Inspectors extra at Mina from 14 th to 17 th . 1 Oil Inspector extra at Zakho from 26 th to 26 th .	29,314
Oct. 99			16,150	15 man days charged extra for oil inspectors as invoiced for 435 instead of a maximum authorized of 420 11 man days charged extra for Spare Pts. Inspectors as invoiced for 99 instead of max of 90 less 2 (i.e. 88) maintained short on 29 th and 30 th	16,150
July 99			8,515	Excess 9 man days at Mina as 1 Insp. maintained extra on 12 th , 13 th , and 22nd to 28 th . Excess 4 man days at Zakho as 1 Insp. maintained extra on 8 th , 9 th , 14 th and 15 th .	8,515
June 99			5,240	3 man days extra at Mina on 6 th , 7 th & 8 th (one each). 3 man days extra at Zakho on 9 th , 10 th & 11 th (one each). 2 man days extra at Ceyhan on 18 th and 19 th (One each).	5,240
Total	84,014		102,224		186,238

